

Message Text

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ACTION EUR-12

INFO OCT-01 EB-07 ISO-00 AID-05 CIAE-00 FRB-03 INR-07
NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 /080 W
-----041332Z 066333 /10

R 041055Z JAN 77

FM AMEMBASSY PRAGUE
TO SECSTATE WASHDC 1770
INFO USDOC WASHDC
AMEMBASSY BERLIN
AMEMBASSY BELGRADE
AMEMBASSY BUCHAREST
AMEMBASSY BUDAPEST
AMEMBASSY MOSCOW
AMEMBASSY SSOFIA
AMEMBASSY WARSAW

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E.O. 11652: N/A

TAGS: EALR, CSCE,ETRD, CZ

SUBJECT: REPRESENTATIVE OFFICES: 1976, A DISAPPOINTING YEAR

REFS A. PRAGUE 3189 B. PRAGUE 3024 C. PRAGUE 2333 D. 76
PRAGUE 3192

1. SUMMARY: REP OFFICES SITUATION REMAINS CONFUSED AND DISAPPOINTIN
G.
WESTERN FIRMS COMPLAIN ABOUT TAXES, EMPLOYEES, REPORTING REQUIREMENTS
,
AND ACCOMODATIONS. GOC EVIDENTLY UNHAPPY ABOUT POOR RESULTS AND
POOR CSCE SHOWING. GOC MAY INCREASE PRESSURE ON FIRMS TO OPEN
OFFICES. 1976 DISAPPOINTED ALL CONCERNED. STILL ONLY 18 RIRMS
APPROVED. AMONG OTHER THINGS, CURRENT MESS REFLECTS POOR GOC
UNDERSTANDING OF "CAPITALIST" BUSINESSMEN. 1977 MAY BRING EFFORTS
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TO RECTIFY, BUT SUCCESS NOT GUARANTEED. END SUMMARY.

2. THREE MONTHS HAVE NOW PASSED SINCE MINISTRY OF FOREIGN
TRADE (MFT) ANNOUNCED (REF B) APPROVAL OF FIRST GROUP OF
APPLICATIONS OF WESTERN (INCLUDING JAPANESE) FIRMS TO OPEN LOCAL
REPRESENTATIVE OFFICES UNDER TERMS OF DECEMBER, 1975 DECREE(REF D).
SITUATION REMAINS CONFUSED AND SOURCE OF SOME DISAPPOINTMENT TO

BOTH FIRMS AND GOC.

3. SOURCES AT OTHER NON-COMMUNIST EMBASSIES TELL US THAT SEVERAL OVERSEAS FIRMS, WHICH HAVE RECEIVED APPROVAL, HAVE COMPLAINED TO MFT ABOUT FOLLOWING PROBLEMS:

(A) TAXES: COMPANIES BELIEVE THAT ANNOUNCED PROCEDURES FOR COMPUTING THE "TAX BASE" ON LOCAL OPERATIONS ARE CONFUSING AND UNREALISTIC. (EMBASSY POUCHING FURTHER INFORMATION ON TAX OBLIGATIONS SUPPLIED BY MINISTRY OF FINANCE.) SEVERAL FIRMS (NOTABLY L.M. ERICSSON OF SWEDEN, WHICH MFT OSTENTATIVELY "HONORED" AS FIRST FIRM TO RECEIVE APPROVAL) HAVE REPORTEDLY TOLD MFT IT MAY NOT OPEN OFFICES AT ALL IF TAX PROBLEMS ARE NOT RESOLVED TO THEIR SATISFACTION. FIRMS HAVE COMPLAINED THAT ANY LOCAL TAXES THEIR REP OFFICES ARE REQUIRED TO PAY WILL ONLY BE TRANSFER PAYMENTS FROM CZECHOSLOVAK FTO'S PURCHASING THEIR GOODS AND SERVICES TO GOC FINANCE MINISTRY. THUS GOC ITSELF WOULD PAY THE TAX. THESE FIRMS HAVE WARNED THAT UNREALISTIC TAX BURDEN WOULD PUT THEM AT DISADVANTAGE WITH FOREIGN FIRMS WHICH DO NOT MAINTAIN LOCAL REP OFFICES AND HENCE DO NOT HAVE TO INCLUDE IN THEIR BIDS TO FTO'S A MARGIN TO COVER THIS TAX.

(B) EMPLOYEES: SEVERAL FIRMS ARE DEEPLY CONCERNED THAT THEY MAY NOT BE ALLOWED TO RETAIN SERVICES OF TRAINED CZECHOSLOVAKS WHO NOW REPRESENT THEM AS EMPLOYEES OF CZECHOSLOVAK REPRESENTATIONAL AGENCIES. (DOW CHEMICAL OFFICIAL RECENTLY TOLD AMBASSADOR THIS IS MAIN REASON DOW HAS NOT APPLIED TO OPEN REP OFFICES HERE. DOW FEARS IT WOULD LOSE SERVICES OF 7 CZECHOSLOVAKS WHOM IT HAS TRAINED TO REPRESENT IT THROUGH REPHACHEM AGENCY.) GOC HAS SAID LIMITED OFFICIAL USE

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THAT ALL REP OFFICE LOCAL EMPLOYEES WILL BE HIRED, FIRED AND PAID BY SPRAVA SLUZEB (SO-CALLED "DIPLOMATIC SERVICES BUREAU", WITH WHICH WESTERN EMBASSIES HAVE DOLOROUS EXPERIENCE). SPRAVA SLUZEB HAS REPORTEDLY TOLD SOME FIRMS THAT IT ALONE WILL ALLOCATE PERSONNEL TO THEM FROM "POOL" OF TALENT IT WILL SET UP AND THAT FIRMS MUST TAKE THOSE ASSIGNED WITHOUT QUESTION. SINCE COMPANIES HAVE

COMPLAINED ABOUT THIS, MFT REPORTEDLY IS CONSIDERING WAYS TO MITIGATE SPRAVA SLUZEB'S AUTOCRATIC ROLE IN THIS MATTER. SCARCITY OF COMPETENT LOCAL PERSONNEL TO STAFF REP OFFICES MAKES THIS A SERIOUS PROBLEM.

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LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 /080 W
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(C) REPORTING REQUIREMENTS: SOME FIRMS HAVE COMPLAINED THAT MFT IS DEMANDING TOO MUCH DETAIL IN REPORTS REP OFFICES WILL HAVE TO FILE (E.G., REGULATIONS NOW REQUIRE WESTERNERS COMING HERE TO WORK IN A REP OFFICE TO REPORT EACH AND EVERY ITEM OF CLOTHING AND ALL HOUSEHOLD ARTICLES THEY BRING WITH THEM). JAPANESE FIRMS HAVE ALSO ASKED THAT THEY BE ALLOWED TO SUBMIT REQUIRED REPORTS IN ENGLISH VICE CZECH.

(D) ACCOMMODATIONS: FIRMS ARE ALSO DISTURBED BY GLOOMY OUTLOOK FOR SUITABLE OFFICE SPACE AND RESIDENTIAL QUARTERS FOR NON-CZECHOSLOVAK PERSONNEL. PLANS HAVE EVIDENTLY BEEN INDEFINITELY SHELVED FOR MAJOR "WORLD TRADE CENTER" (REF C), WHICH WAS TO HAVE BEEN BUILT IN NEAR FUTURE TO PROVIDE OFFICES AND APARTMENTS FOR REP OFFICE FOREIGNERS (AND, UNDOUBTEDLY, TO HELP ISOLATE THEM FROM LOCAL POPULACE). DUE TO THE SERIOUS PROBLEMS OF CZECHOSLOVAK
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CONSTRUCTION INDUSTRY, ONE OF THE WEAKEST SECTORS IN A GENERALLY UNHEALTHY ECONOMY, AND TO THE RELATIVELY LIMITED NUMBER OF FOREIGN FIRMS RESPONDING TO GOC'S REP OFFICE PROPOSAL, "WORLD TRADE CENTER" PLAN WILL PROBABLY REMAIN DORMANT FOR SEVERAL YEARS.

4. FOR ITS PART, GOC EVIDENTLY IS ALSO UNHAPPY ABOUT DEVELOPMENTS REGARDING REP OFFICES. FOREIGN MINISTER CHNOUPEK AND PERHAPS OTHER

HIGH OFFICIALS PUSHED THE DECEMBER 1975 DECREE THROUGH A RELUCTANT BUREAUCRACY NOT ONLY TO STIMULATE INFLOW OF BADLY NEEDED WESTERN TECHNOLOGY AND CAPITAL GOODS BUT ALSO TO PUT GOC IN BETTER LIGHT ON CSCE COMPLIANCE. (CZECHOSLOVAKIA PROBABLY LAGS BEHIND ALL ITS EAST EUROPEAN ALLIES ON THIS MATTER.) DECREE WAS OBVIOUSLY PUSHED THROUGH WITHOUT ADEQUATE COORDINATION WITH THE MANY BUREAUCRATS WHO WERE TO BE INVOLVED IN IMPLEMENTING IT, AS INDICATED BY LONG DELAY IN APPROVING FIRST FIRMS. THAT LESS THAN 45 FIRMS HAVE SO FAR APPLIED TO OPEN SUCH OFFICES IS A MAJOR DISAPPOINTMENT TO GOC OFFICIALS, SOME OF WHOM REPORTEDLY EXPECTED ABOUT 200 COMPANIES TO RESPOND. COMPLAINTS FROM THE FIRMS WHICH HAVE BEEN APPROVED (PARA 3) AND THE OBVIOUS INERTIA OF LOCAL BUREAUCRACY IN WORKING OUT REASONABLE IMPLEMENTATION OF ORIGINAL DECREE ALSO MUST CAUSE GOC CONCERN SINCE WHAT WAS MEANT TO BE A CSCE PLUS MAY TURN OUT TO BE A MINUS. ALSO, IT SEEMS LIKELY THAT SOME GOC OFFICIALS LOOKED UPON FUTURE REP OFFICES AS ETSIGNIFICANT SOURCE OFEXTRA HARD CURRENCY, SINCE WESTERN AND JAPANESE FIRMS COULD BE CHARGED EXORBITANTLY IN CONVERTIBLE CURRENCIES FOR LOCAL OPERATIONS. THIS WINDFALL NOW SEEMS MORE UNLIKELY THAN EVER TO MATERIALIZE IN SIGNIFICANT AMOUNTS UNLESS GOC INCREASES PRESSURE ON MORE FIRMS TO OPEN OFFICES. THOSE JAPANESE AND OTHER FIRMS WHO WERE ALREA
V
RUNNING LOCAL OFFICES ON AN IRREGULAR BASIS CLEARLY WILL BE REQUIRED TO LEGITIMIZE THEIR OPERATIONS, BUT IT IS NOT YET CLEAR HOW MUCH PRESSURE GOC WILL EXERT ON OTHER FIRMS TO SET UP REP OFFICES IN ORDER TO PROTECT THEIR COMMERCIAL POSITION HERE. IT IS STILL LIMITED OFFICIAL USE

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LIKELY UX MENTIONED IN REF C, THAT MFT WILL REOGRANIZE ITS PRESENT REPRESENTATIONAL AGENCY SYSTEM TO ENCOURAGE LARGER FIRMS TO USE OFFICES VICE AGENCIES.

5. 1976 WAS A DISAPPOINTING YEAR FOR ALL CONCERNED WITH REPRESENTATIVE OFFICES, EXCEPT FOR BUREAUCRATS WHO OPPOSE THE CONCEPT ALTOGETHER. ALTHOUGH ADDITIONAL APPROVALS WERE PROMISEDHZBEFORE CHRISTMAS", APPARENTLY THEY NEVER CAME THROUGH AND ONLY THE ORIGINAL 0/ (NOT 19 AS EARLIER REPORTED REF A) FIRMS FROM JAPAN (12), SWEDEN(3), ITALY (2) AND SPAIN (1) HAVE BEEN APPROVED. THUS WEST GERMANY, CZECHOSLOVAKIA'S LARGEST NON-CEMA TRADING PARTNER STILL IS NOT REPRESENTED IN THIS GROUP DESPITE MFT ASSURA AES THAT AT LEAST ONE FRG FIRM WILL BE APPROVED. AMONG OTHER THINGS, CURRENT MESS REFLECTS HOW POORLY GOC LEADERS AND BUREAUCRATS UNDERSTAND THE THINKING AND RFEUIREMENTS OF "CAPITALIST" BUSINESSMEN. 1977 WILL PROBABLY BRING RENEWED GOC EFFORTS TO RECTIFY THIS EMBARRASSING SITUATION, BUT THE SUCCESS OF SUCH EFFORTS IS CERTAINLY NOT GUARANTEED.

BYRNE

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